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19 January 1984

MEMORANDUM FOR: Director of Central Intelligence

VIA: Deputy Director of Central Intelligence  
Deputy Director for Intelligence

FROM: R. M. Huffstutler  
Director of Soviet Analysis

SUBJECT: Estimates of Soviet Defense Costs

Two government agencies, the CIA and DIA, estimate Soviet defense costs. The CIA prepares a cost estimate in both dollars and rubles; the DIA only in rubles. Both agencies also estimate production of Soviet weapons. The CIA uses its production estimates to prepare both the dollar and ruble cost estimates. DIA does not, relying instead on Soviet budgetary data to produce its ruble estimate.

#### Production Estimates

CIA and DIA now compare their production estimates of Soviet forces on an annual basis. The last time this was done in detail (May 1983) there were no large differences. (The comparison process is just starting for this year.)

- o Of the 24 largest Soviet production programs in the CIA and DIA data bases there were significant differences in only three--ground forces ammunition, MI-8 Hip helicopter production and production of heavy equipment and general purposes vehicles.
- o DIA and CIA have different estimates for production of ICBMs. This stems from differences in production runs (CIA believe they are shorter) and differences in estimates of refires (DIA believes there are more). Even these differences do not have a significant impact on cost trends (see below).
- o Differences between CIA and DIA estimates of ground forces ammunition, heavy equipment and general purpose vehicles was the result of differing assumptions of Soviet requirements for the support of their ground forces. CIA and DIA analysts have since examined the differing assumptions as part of a joint project to estimate land arms inventories and are now in substantial agreement.

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SUBJECT: Estimates of Soviet Defense Costs

### Dollar Estimates

Although DIA has no independent dollar estimate, as a one-time exercise the DIA production estimates were run through the CIA costing model last year. Their production estimates costed with our dollar prices produced the same trend for the dollar costs of Soviet procurement.

- o Both estimates show a distinct "kink" in 1976, followed by six years during which there was little or no growth. Although the unit costs of Soviet weapons were increasing because they embodied more sophisticated technologies, this was offset by the declining quantities in both the CIA and DIA data bases.
- o The absolute levels of the two dollar estimates are virtually identical. The DIA estimate exceeds that of CIA by only about 5 percent over the 1972-81 period as a whole--well within the margin of uncertainty attributed to our estimate.

### Ruble Estimate

The CIA estimates Soviet defense spending in constant 1970 rubles; DIA makes its estimate in current prices using a methodology that does not incorporate their own production estimates.

- o The CIA estimates that the Soviet allocation of resources to defense measured in constant prices has increased each year since the early 1960s, and the share of GNP devoted to defense is now about 13-14 percent.
- o DIA estimates that Soviet defense spending measured in current prices has grown at 6-7 percent annually from the early 1970s to the early 1980s. The share of GNP devoted to defense, also measured in current prices, indicates that the defense burden has increased from 12-14 percent in 1970 to 14-16 percent in 1981.
- o Both agencies believe that the growth of procurement of military hardware has declined since the mid-1970s. We now estimate that growth in total Soviet defense outlays since 1976 has averaged 2 percent annually, compared to the 4-5 percent growth of the previous ten years. DIA also believes it has slowed although they are not prepared to assess a specific growth rate.

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- o The principal reason for the differences in CIA and DIA estimates of spending trends, and burden calculations is the different methodologies employed. DIA derives expenditure estimates in current prices from published economic statistics and Soviet HUMINT sources. CIA, on the other hand, direct costs the physical elements over time by placing constant ruble cost factors on the elements. The resulting estimates are compared to those derived from Soviet statistics and HUMINT sources. These "complementary approaches" have a wide margin of uncertainty and are useful only as a very crude check.
- o As a consequence of the different pricing concepts used, the DIA estimate grows faster than the CIA estimate as inflation is in the DIA estimate but excluded from the CIA estimate. In addition, the CIA estimate, based on detailed observation of defense activities over time, is more sensitive to shifts in military effort than an approach which relies on highly aggregated economic statistics.

R.M. HUFFSTUTLER

SUBJECT: Estimates of Soviet ICBM Production

We believe there is a difference in definition between the CIA's estimate of the dollar procurement cost of Soviet ICBMs and DIA's estimate of Soviet ICBMs. CIA's estimates include the cost of procuring the ICBM booster, reentry vehicles, and guidance components. In contrast, the DIA estimate consists solely of the cost of the booster which we believe accounts for only about one-third the cost of a deployed ICBM. This, plus differences in refires and phasing, may account for the difference in procurement cost trends. ☐

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